Telephony

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FOR TODAY'S COMPETITIVE PUBLIC NETWORK MARKET

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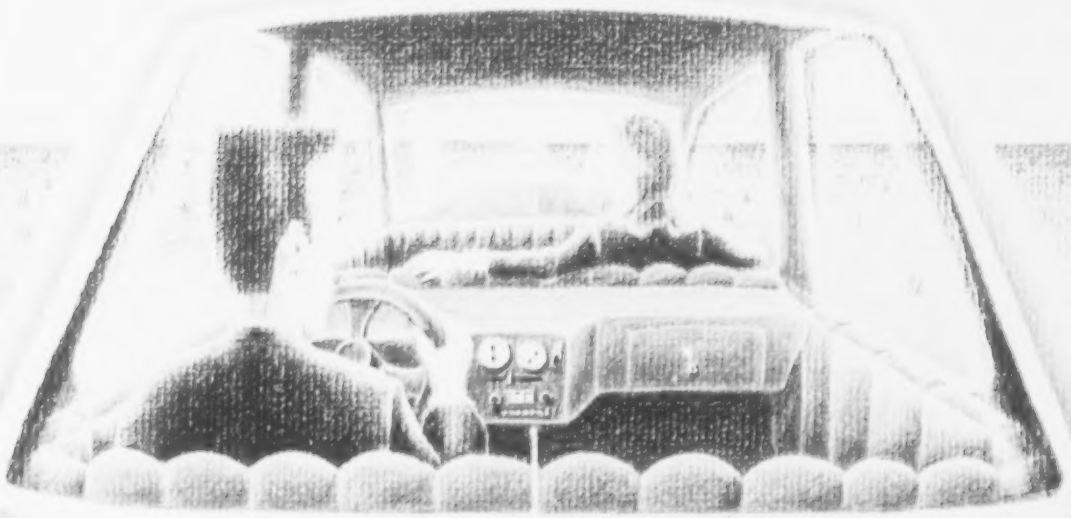

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FOR TODAY'S COMPETITIVE PUBLIC NETWORK MARKET

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TECHNOLOGY MOVES OUT OF CELLULAR DRIVER'S SEAT
By Michael W. Reene. To date, explosive growth has ruled the cellular communications industry. As the industry enters its second decade, it's time for cellular companies to position themselves in the market, looking at distribution strategies and commission structures. In short, they need to let customers decide what routes the cellular industry should take
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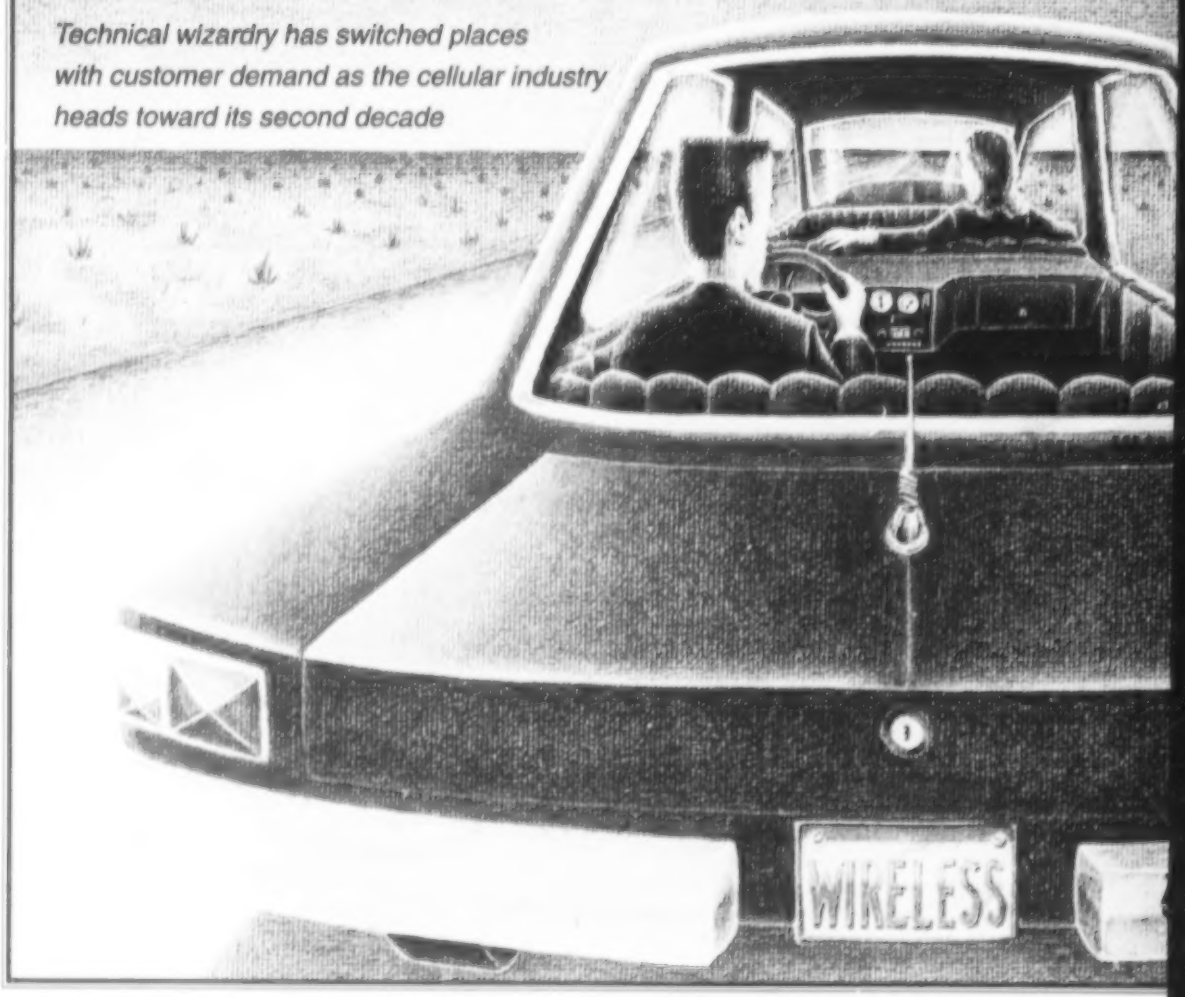
Customers move technology out of cellular driver's seat

Technical wizardry has switched places with customer demand as the cellular industry heads toward its second decade



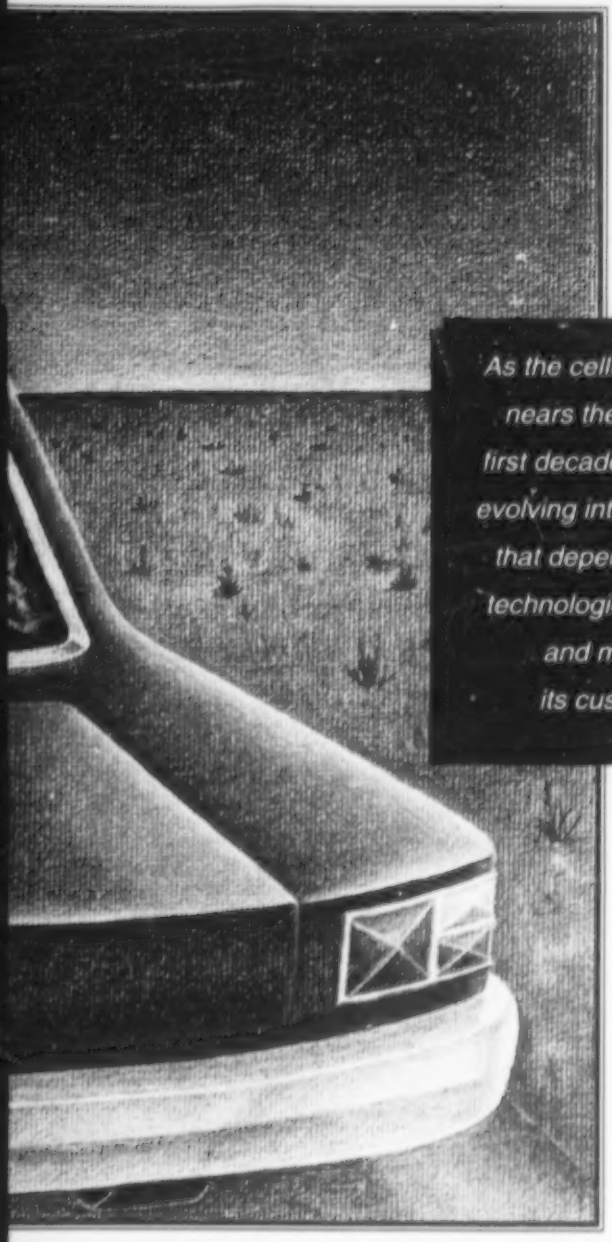
MICHAEL W. REENE

Explosive growth has been the rule for the cellular communications industry in its short nine-year existence. As the industry prepares to enter its second decade, its challenge is to continue that explosive growth rate. When the industry was born, multiple cellular carriers emerged very quickly, establishing comprehensive networks sooner than anyone thought possible. And those carriers handled the amazing growth rates with impressive dexterity.

To ensure continued growth and expansion, however, cellular companies must make some important strategic decisions. Each service provider must decide how to position itself in the market and what distribution strategies and commission structures most appropriately complement that choice.

In today's larger cellular markets, few companies, if any, can be all things to all customers. Companies must instead decide what products to offer, what related products to broker and how to assemble those elements into a package that will be most attractive to today's sophisticated cellular subscribers.

Cellular companies that decide to focus directly on



As the cellular industry nears the end of its first decade, it is rapidly evolving into a business that depends less on technological wizardry and more on its customers.

customers must organize themselves in ways that reflect the market position they stake out for the 1990s—providers of total communications solutions.

Each carrier also must decide the extent to which it wants to focus on the business arena and on the general consumer market, as well as how much it is willing to pay to attract each customer, and what kind of distribution channels are most appropriate and efficient.

These strategic challenges have arisen because today's cellular industry bears little resemblance to the business that began commercial operations only nine years ago. For one thing, the cellular arena already has proven itself to be one of the fastest-growing industries ever created.

The U.S. customer base grew from 5000 subscribers to nearly 6.5 million by mid-1991, and the number of U.S. cellular systems expanded from 32 to 592 by mid-1990. Nevertheless, those numbers translate into a market penetration of only between 1% and 2% of potential subscribers. Obviously, there are some tremendous opportunities to achieve even more growth.

Although more than 1000 companies now provide cellular service, 25 of those carriers cover more than 80% of the population, and the Bell regional holding companies account for seven of the top 10 cellular operators in the United States (Figure 1).

Capital investment in the cellular industry also has climbed to almost $8 billion. The overall market value of the industry currently is pegged at about $36 billion. Even though the industry spent a lot of money to put cellular networks in place, many companies poured even more capital into acquiring and consolidating their market positions.

The rapid growth in the number of cellular subscribers, along with carrier consolidation, has transformed the industry from a technology driven business to one fueled by customer demands for enhanced communications capabilities.

Many of today's cellular customers are far more savvy and discriminating than the original subscribers of the 1980s. Today's customers want a single vendor to handle their communications needs. They are not interested in the details of transmission and switching technology.

They want the same services from cellular that they demand—and get—from their local exchange carriers: reliable, high-quality service; ease of use; ubiquitous coverage; detailed, accurate, on-time billing; and added-value services that range from facsimile and data transmission to portability of such enhanced features as voice mail, call waiting and call forwarding. In other words, they want transparent, on-demand access to information in multiple media.

Today's customer-driven industry puts cellular companies in a strong position to repackage and resell the communications products and services typically associated with the traditional public network. The companies that meet customers' total communications needs will be the ones to fuel—and profit from—the next round of explosive growth. Not only are today's customers indifferent to technology, they also are indifferent to who provides their service—as long as the vendor satisfies their communications requirements.

When LECs and equipment vendors would not or

continued on page 32

could not meet customer requirements in the 1970s and 1980s, value-added resellers (VARs) carved out a chunk of the market. Today's cellular carriers, faced with the same kind of market shift and attendant competition, are ideally situated to act as VARs themselves. Unlike LECs, though, cellular companies can determine for themselves how best to compete in this dynamic market.

Each cellular carrier operating today must decide to what extent it wants to focus on the network side of the business, whether it wants to shift its resources to the customer side or address both sides.

In other words, each company must decide whether to concentrate its resources on selling a commodity pipe—building more cell sites and marketing technology-based capacity to VARs—or going into the VAR business itself and focus on keeping existing customers and acquiring new ones by marketing the benefits of cellular communications. Few carriers will have the managerial and financial resources to do both.

A function of the pipe vs. VAR decision is how each cellular carrier defines customer value, or how much each subscriber is worth to that company in the long run. Although applicable to the large-volume business user, customer value also is relevant to the general consumer or incremental subscriber.

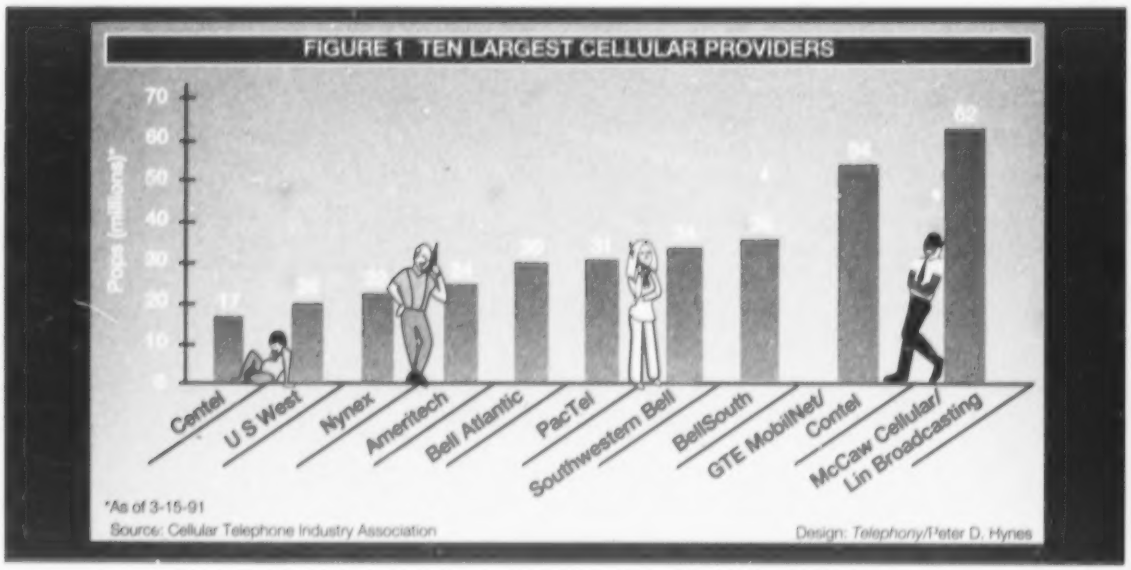
Some carriers hope to increase their business by attracting incremental customers. These carriers assume that a greater number of subscribers would offset the lower revenues generated by each consumer and are adopting marketing strategies that emphasize not only cellular's increasing affordability, but the security and convenience it offers.

New marketing strategies also are prompting these carriers to evaluate their distribution channels and commission structures to ensure the companies can attract customers at a reasonable cost.

Other carriers, however, continue to regard cellular communications primarily as a business productivity tool, at least for the foreseeable future. They argue that the occasional use of cellular service by incremental subscribers would not generate sufficient revenues to justify the marketing expense to attract that segment.

Each cellular company must look beyond the revenues it expects to garner from a potential subscriber's monthly bill. In addition to looking at the bottom line, cellular companies should ask: What will a particular incremental subscriber's long-term usage be? What is that customer's loyalty worth? What other opportunities might arise from a direct relationship with that subscriber?

If one carrier has decided to focus on the network or commodity pipe side of the market, then a direct relationship with a user may be of relatively low value—about $100 a subscriber. Another carrier that has decided to become a total service provider, however, would see a long-term relationship with that same customer obviously as more valuable—maybe as much as $600 a subscriber.



As the cellular industry nears the end of its first decade, it is rapidly evolving into a business that depends less on technological wizardry and more on its customers. Or, more accurately, the industry is becoming more dependent on the ability of service providers to satisfy customers' demands.

To meet those demands and boost industry growth beyond the current low market penetration, cellular carriers clearly must shift gears. To be a total communications provider, a cellular provider will need significantly different business processes than it uses to operate in today's cellular market. Customers already know what they want. To continue being successful in the next decade, cellular companies must position themselves to meet those needs. ■

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